SBM insights

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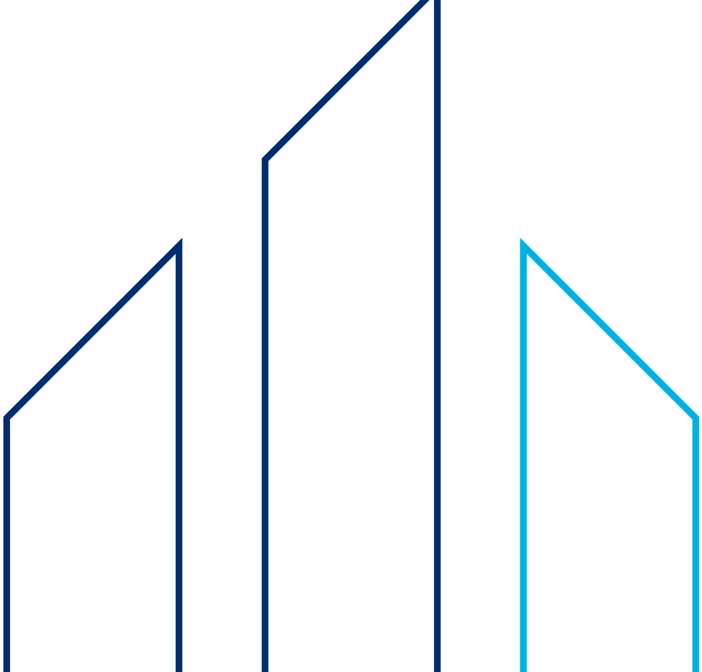


Editorial Note

Sustained bright spots, albeit amidst a challenging global environment

As per official estimates, Mauritius has, in recent periods, upheld the general strength, stability and resilience of its growth impetus, while pursuing its broad-based socio-economic progress. At the same time, macroeconomic challenges have prevailed in some areas, with vigilance being warranted on account, particularly, of the volatile, albeit recovering, global landscape and the sub-optimal growth trajectory witnessed by some key export markets in view of headwinds faced. In its latest World Economic Outlook Report, the IMF highlighted that *"The global recovery from the COVID-19 pandemic and Russia's invasion of Ukraine remains slow and uneven."* While citing key challenges such as monetary policy tightening and elevated inflation, the OECD has stressed that *"Global GDP growth prospects in 2023 and 2024 are lackluster and the outlook for medium-term growth remains weak."* Specifically, the euro area GDP declined by 0.1% in the third quarter of 2023, in the wake of subdued household expenditure owing to pressures exerted by high inflation on disposable incomes, rising market interest rates, business uncertainty instigated by the war in Ukraine and weak global demand. As for the US, whereas it maintained its solid growth momentum in the third quarter, monetary policy tightening, high inflation and tight labour markets are still making their way through the economy. Regarding the UK, whilst it avoided the recession that operators had been expecting, growth has stayed flat during the period on account of higher cost of living, hikes in interest rates and external shocks.

Maintaining efforts to further buttress the economy's underlying strength

In the wake of the edgy global environment and escalating geopolitical tensions in some parts of the world, the onus is on Mauritius to keep on strengthening its fiscal space and macroeconomic buffers to bolster its resilience against exogenous dynamics, alongside further boosting its productivity levels and the development of new economic sectors, notably the renewable energy, oceanic and pharmaceutical industries. While several initiatives have been envisioned or are already being implemented by the public and private sectors, the country stands to benefit from comprehensive measures which will build bridges to high, inclusive and sustainable growth. This, as acknowledged by policy makers and the business community, implies (i) garnering a stimulating and trustworthy business environment; (ii) safeguarding market and financial stability; (iii) propelling a competent and versatile employment force; (iv) scaling up infrastructure investments, in terms of electricity and water supply, digital connectivity and the port set-up; (v) securing, as far as possible, food security and energy affordability; and (vi) achieving set aspirations in terms of social inclusion, gender equality and poverty alleviation. Towards these ends, key success factors would include (i) embracing a pragmatic mindset that ensures that nationwide change and transformation are achieved in the smoothest conditions; (ii) maximising the benefits linked to partnerships and synergies between the authorities and the private sector; (iii) embedding flexible and robust legal, regulatory and institutional frameworks; (iv) achieving smart cooperation and integration within regional trading blocs as well as collaborations with foreign institutional partners; (v) tackling any policy trade-offs that may be encountered, while optimising the percussion of announced measures; and (vi) encouraging an innovation culture in everything that we do, underpinned by R&D initiatives. That said, achieving these afore-mentioned objectives would, in all probability, take time and is likely to happen in a relatively progressive manner, while being, at the same time, dependent on the in-built characteristics, resources and specificities of the Mauritian economy.

Embarking on a sustainable journey, alongside coping with climate change

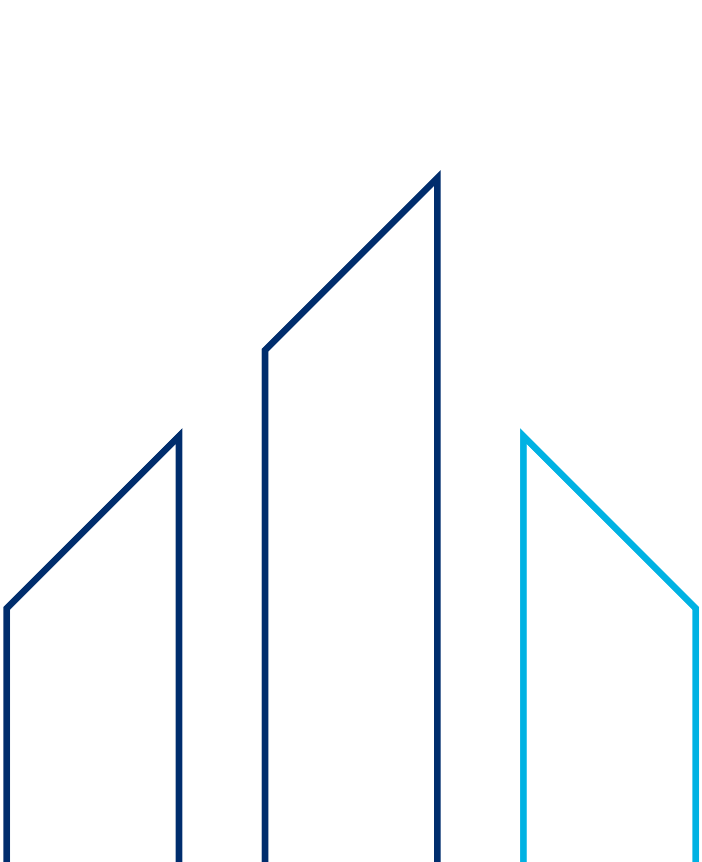
While the journey is still underway, the authorities in Mauritius have, via reforms and initiatives, moved forward towards realising the ambition of forging an inclusive and green society, with focus on key matters such as sustainable finance, renewable energy production, energy efficiency, ESG reporting, smart transport systems, circular economy principles and adaptation to climate change. Both public and private stakeholders acknowledge that the transition towards environmentally sustainable and low-emissions development pathways is a critical component of a country's ability to achieve the 2030 Agenda for Sustainable Development, as set by the United Nations. Emphasis is being laid on making Mauritius a carbon-neutral and a climate-resilient country, after catering for (i) rising sea levels and the impact on our beaches and the tourism industry; (ii) the country's vulnerability to natural hazards given its geographical location; and (iii) the increasing frequency and intensity of extreme weather events (e.g. droughts and flash floods). Key imperatives are to tackle environmental and broad-level challenges associated with climate change, biodiversity, resource availability and pollution – insofar as they have implications for the well-being of current and future generations – alongside increasing the reliance on secure, clean and homegrown energy supply. On those topics, the Singapore Green Plan 2030 makes for interesting reading. It is a whole-of-nation movement to advance the country's sustainable development, with targets aimed at achieving the long-term net zero emissions aspiration by 2050, in line with UN's Sustainable Development Agenda and the Paris Agreement. Key programmes being explored are City in Nature, Energy Reset, Sustainable Living, Green Economy and Resilient Future.

Concluding remarks

Lately, while attesting to the country's macroeconomic resilience, Moody's Investors Service has – in addition to upholding our investment-grade sovereign rating of Baa3 – upwardly revised the 'Economic Strength' and 'Fiscal Strength' sub-ratings used in its computation scorecard. As for Standard and Poor's, it has also come up with an investment-grade credit rating for Mauritius, while underscoring its effective policy making, stable political environment, easing budgetary and external pressures and strong economic growth. The challenge for all of us, going forward, is to perpetually and indiscriminately strengthen the country's socio-economic fundamentals and credentials in the face of an increasingly volatile, ambiguous, complex and demanding global landscape. This could, in other words, be pictured as achieving what economists refer to as the Lagrangian optimisation, subject to equation constraints!

Nuvin BALLOO
Group Chief Strategy Officer
21 November 2023

Table of Contents



Global Economic Review

Economic growth

As per the IMF, the global economy continues to recover from the pandemic, the war in Ukraine and the cost-of-living crisis, but overall growth is viewed as being slow and uneven. In its World Economic Outlook released in October 2023, the IMF mentioned that *“Despite economic resilience earlier this year, with a reopening rebound and progress in reducing inflation from last year’s peaks, it is too soon to take comfort.”* Global growth is likely to decelerate from 3.5% in 2022 to 3.0% in 2023 and 2.9% in 2024, with these figures remaining below the historical (2000–19) average of 3.8%. This slowdown is partly explained by tighter monetary policy aimed at tackling inflation rates, given the repercussions on investment, housing markets, etc., while other factors include withdrawal of fiscal support amidst high debt and extreme weather events. Specifically, in spite of the stronger-than-anticipated momentum witnessed by the US, growth in advanced economies is set to slow down in both 2023 and 2024, amidst weaker-than-expected growth in the euro area. As for emerging market and developing economies, growth is, on overall, foreseen to decline from 4.1% in 2022 to 4.0% in both 2023 and 2024, after, to some extent, making allowance for growing headwinds faced by China from its real estate crisis. With regard to sub-Saharan Africa, growth is projected to improve to 4.0% in 2024, after edging down to 3.3% in 2023 due *inter alia* to the global slowdown, weather shocks and domestic supply issues.

In spite of receding in recent times – following the resolution of US debt ceiling tensions as well as the Swiss and US authorities’ decisive actions to contain financial turbulence – the balance of risks to the global growth outlook is tilted to the downside. In this regard, the IMF has highlighted that potential worldwide threats include (i) a deepening of China’s property sector crisis and associated dampened confidence levels; (ii) more persistent inflationary pressures in view of tight labour markets, which could require higher policy rates than expected; (iii) exacerbated geopolitical shocks, with global spillovers in terms of dampened activity levels and higher commodity price spikes; (iv) accentuated climate change repercussions; and (v) tightening of global financial conditions, with sharp risk repricing leading to currency volatilities, higher borrowing costs and debt distress in some countries or groups of countries.

Inflation

In recent months, the relative easing of international commodity prices and tighter global monetary policy conditions have played a determining role in engendering a decline in inflation across several countries. Notwithstanding a rebound lately, crude oil prices have fallen during 2023 and are well below their June 2022 peak, partly accounted for by contained global demand. Looking ahead, global inflation is, as per the IMF, expected to fall from an average of 8.7% in 2022 to 6.9% in 2023 and 5.8% in 2024, though the indicator is, in most cases, not likely to return to target until 2025. In 2023, the prices of fuel commodities are forecasted to fall on average by 36% and oil prices by about 17%, partly due to the slowdown in global economic activity. After moving up last year, food commodity prices are projected to decline, on average, by 6.8% in 2023, with prices still overshooting their 2021 levels. As for 2024, the evolution of commodity prices would depend on global trade patterns and any geopolitical tensions.

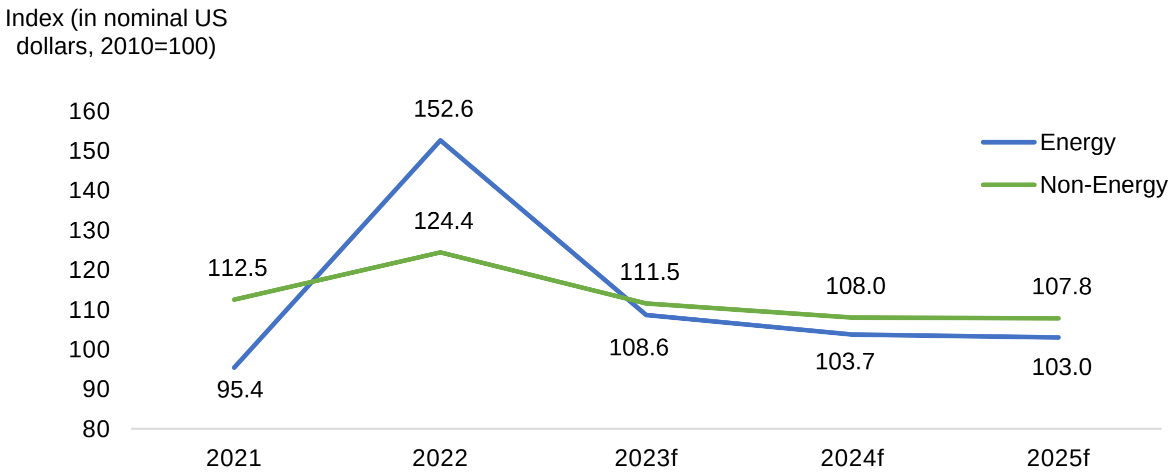
Table 1. Global economic projections as per the IMF

Annual percent change	2022	2023f	2024f	Percentage point differences from July 2023 forecasts 2023	2024
World Output	**3.5**	**3.0**	**2.9**	**0.0**	**–0.1**
Advanced Economies	**2.6**	**1.5**	**1.4**	**0.0**	**0.0**
United States	2.1	2.1	1.5	0.3	0.5
Euro Area	3.3	0.7	1.2	–0.2	–0.3
Germany	1.8	–0.5	0.9	–0.2	–0.4
France	2.5	1.0	1.3	0.2	0.0
Italy	3.7	0.7	0.7	–0.4	–0.2
Spain	5.8	2.5	1.7	0.0	–0.3
Japan	1.0	2.0	1.0	0.6	0.1
United Kingdom	4.1	0.5	0.6	0.1	–0.4
Canada	3.4	1.3	1.6	–0.4	0.2
Emerging Market and Developing Economies	**4.1**	**4.0**	**4.0**	**0.0**	**–0.1**
Emerging and Developing Asia	4.5	5.2	4.8	–0.1	–0.2
China	3.0	5.0	4.2	–0.2	–0.3
India	7.2	6.3	6.3	0.2	0.0
Emerging and Developing Europe	0.8	2.4	2.2	0.6	0.0
Russia	–2.1	2.2	1.1	0.7	–0.2
Latin America and the Caribbean	4.1	2.3	2.3	0.4	0.1
Brazil	2.9	3.1	1.5	1.0	0.3
Mexico	3.9	3.2	2.1	0.6	0.6
Middle East and Central Asia	5.6	2.0	3.4	–0.5	0.2
Saudi Arabia	8.7	0.8	4.0	–1.1	1.2
Sub-Saharan Africa	4.0	3.3	4.0	–0.2	–0.1
Nigeria	3.0	2.9	3.1	–0.3	0.1
South Africa	1.9	0.9	1.8	0.6	0.1
Commodity Prices					
Oil	39.2	–16.5	–0.7	4.2	5.5
Nonfuel (average based on world commodity import weights)	7.9	–6.3	–2.7	–1.5	–1.3
World Consumer Prices	8.7	6.9	5.8	0.1	0.6
Advanced Economies	7.3	4.6	3.0	–0.1	0.2
Emerging Market and Developing Economies	9.8	8.5	7.8	0.2	1.0

Note: For India, data and projections are presented on a fiscal year basis, with FY 2022/23 (starting in April 2022) shown in the 2022 column

Source: IMF - World Economic Outlook (October 2023)

Figure 1. Evolution of commodity prices as per the World Bank



Note: Energy price index includes coal (Australia), crude oil (Brent), and natural gas (Europe, Japan, US)

Source: World Bank – Commodity Markets Outlook (October 2023)

Table 2. Commodity price forecasts as per the World Bank

Commodity	Unit	2022	2023f	2024f	2025f
Energy					
Coal, Australia	$/mt	344.9	175.0	130.0	110.0
Crude oil, Brent	$/bbl	99.8	84.0	81.0	80.0
Natural gas, Europe	$/mmbtu	40.3	13.0	12.5	13.0
Natural gas, US	$/mmbtu	6.4	2.7	3.3	4.0
Liquefied natural gas, Japan	$/mmbtu	18.4	14.0	13.0	14.0
Non-Energy					
Tea, average	$/kg	3.05	2.80	2.75	2.77
Rice, Thailand	$/mt	437	560	595	550
Wheat, US, HRW	$/mt	430	345	335	320
Sugar, World	$/kg	0.41	0.52	0.49	0.45
Cotton	$/kg	2.86	2.10	2.20	2.23
Aluminum	$/mt	2,705	2,300	2,200	2,400
Copper	$/mt	8,822	8,200	7,800	8,500
Iron ore	$/dmt	121.3	108.0	105.0	100.0
Gold	$/toz	1,801	1,800	1,900	1,700
Silver	$/toz	21.8	23.5	23.7	22.5

Source: World Bank – Commodity Markets Outlook (October 2023)

The Mauritian Economy

› The Real Sector

Economic growth

Key forecasts and underpinnings

<u>Quarterly growth estimates</u>

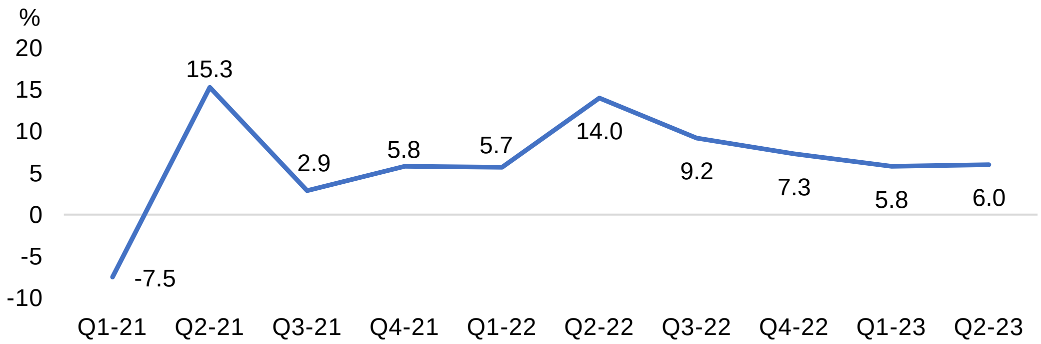
As per the latest National Accounts estimates of Statistics Mauritius, economic growth has pursued an encouraging path during the first semester of the year. Indeed, real GDP growth stood at 5.8% and 6.0% in the first and second quarters of 2023 respectively. Whilst the country continued to be exposed to an exigent global landscape, its growth trajectory has been underpinned by broad-based sectorial foundations, with key industries faring notably well, including non-sugar agriculture, domestic oriented manufacturing, construction, tourism, transportation and storage, financial and business services, and ICT. From an expenditure perspective, while the real growth in exports of services makes for good reading, investment endeavours have stepped up by a noticeable margin, as gauged by gross fixed capital formation registering real growth rates of 8.7% and 10.5% in this year's first two quarters.

<u>Growth outlook for the year</u>

In line with recent trends and bearing in mind the unfolding global environment, economic growth for Mauritius is, as per our baseline scenario, foreseen to stand at around 7% in 2023, driven by broad-based sectorial achievements and favourable investment trends. This performance, which reflects the economy's strengthening resilience and dynamism, is reassuring insofar as (i) it is coming up against the backdrop of a high base effect represented by the growth figure of 8.9% estimated for 2022; and (ii) it is being achieved amidst an unsteady worldwide landscape. In parallel, the growth prognosis is to be read in conjunction with challenges faced by the country's real, fiscal and external sectors, which warrant that we, collectively, remain on our toes and continue to adopt a cautious and informed policy making approach so as to cope with and adapt to a fast-changing environment.

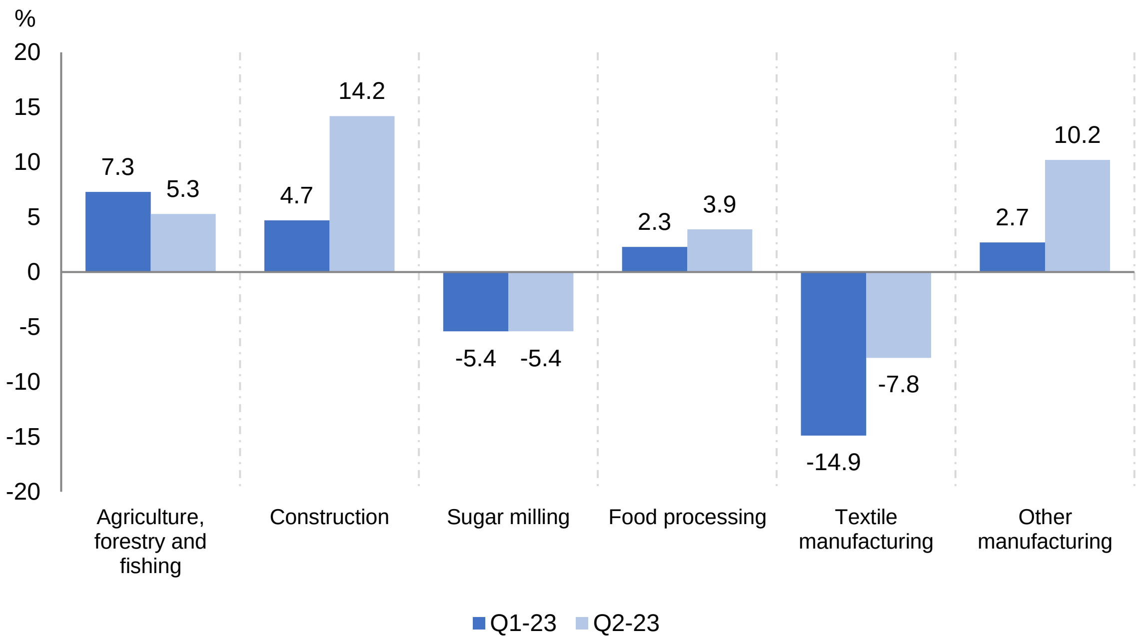
Whereas the economic outlook for Mauritius can be viewed as encouraging in the face of the demanding global context, it calls for continuous scrutiny on account of the dynamic environment. Firstly, as it is the case for several economies worldwide, the growth prediction for this year reflects both a meaningful dynamism and, in some respects, a relative rebound in view of the favourable statistical impact coming off the sizeable GDP contraction witnessed back in 2020. Secondly, whilst we are already nearing the end of the year, the growth prognosis is still subject to a volatile operating environment, with limited visibility about how the international landscape would shape up in the weeks ahead. Against this backdrop, some downside risks to our growth prediction prevail, with the IMF pointing out to the following potential worldwide threats: (i) further loss of growth momentum in China; (ii) higher and more volatile commodity prices, especially in the wake of acute geopolitical disturbances; (iii) exacerbating and tighter financial market conditions; and (iv) longer-than-expected transmission lags and larger effects from the ongoing global monetary tightening cycle. On the domestic front, vigilance is, notably, called for, in view of any repercussions of climate change – including any prolonged drought or other extreme events such as floods – on economic activities and specific sectors.

Figure 2. Quarterly GDP at market prices (year-on-year real growth)



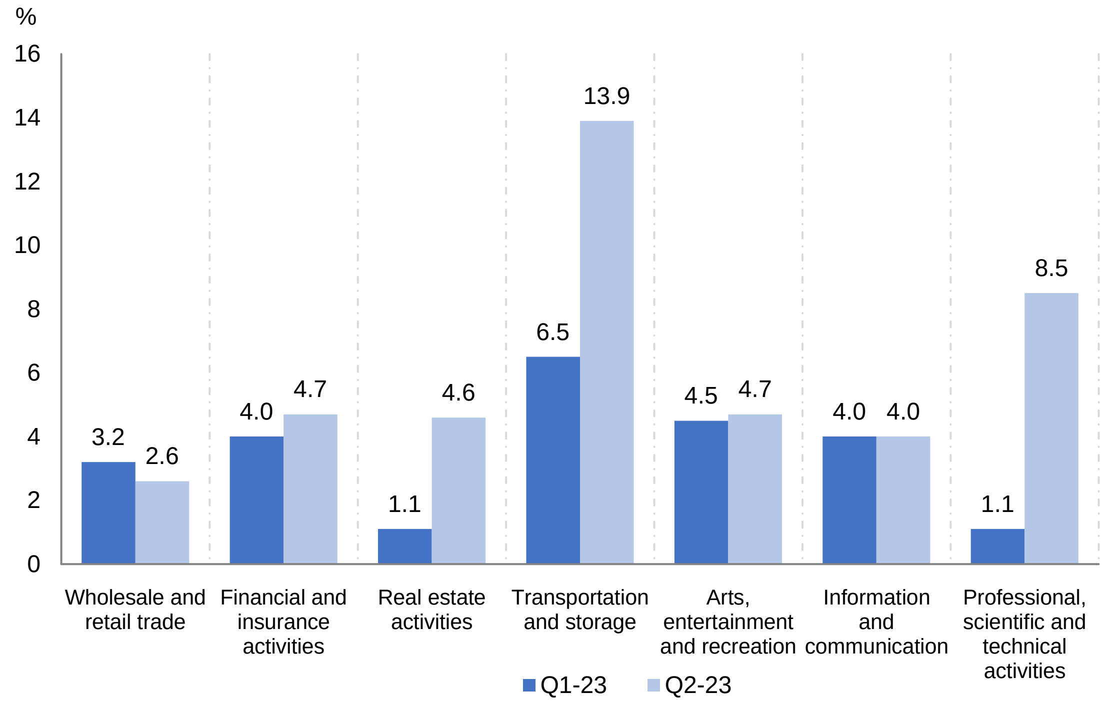
Source: Statistics Mauritius - Quarterly National Accounts (Q2-2023)

Figure 3. Primary and secondary sectors (year-on-year real growth in value added)



Source: Statistics Mauritius - Quarterly National Accounts (Q2-2023)

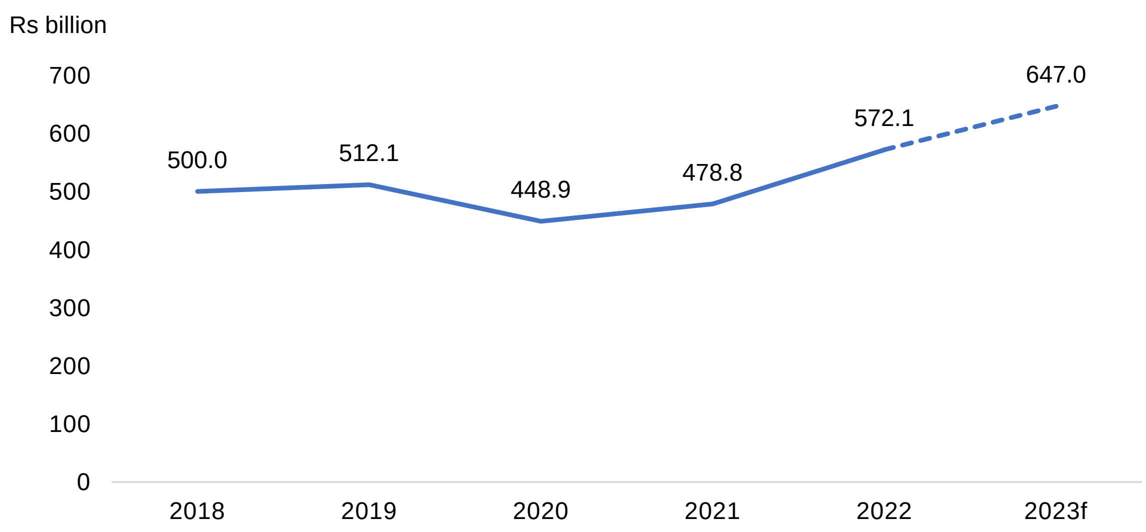
Figure 4. Tertiary sector (year-on-year real growth in value added)



Period	Accommodation and food service activities
Q1-23	60.2%
Q2-23	31.6%

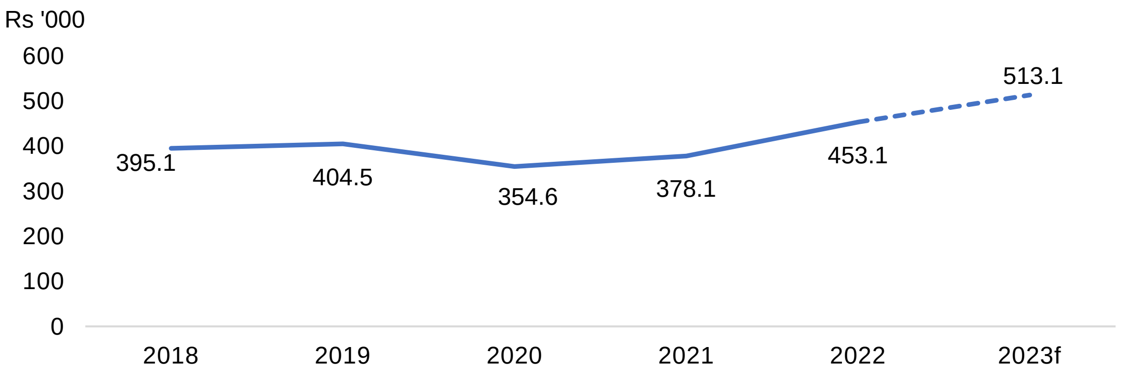
Source: Statistics Mauritius - Quarterly National Accounts (Q2-2023)

Figure 5. Evolution of GDP at current market prices



Source: Statistics Mauritius - National Accounts Estimates (September 2023)

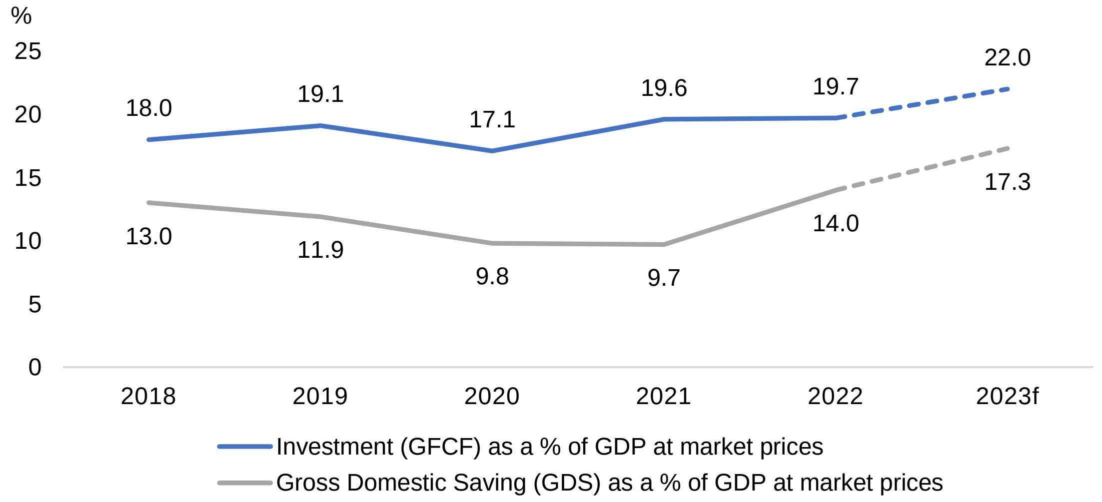
Figure 6. Per capita GDP at current market prices



	2018	2019	2020	2021	2022	2023f
Annual real growth rate (%)	4.0	2.9	-14.5	3.4	9.2	6.9

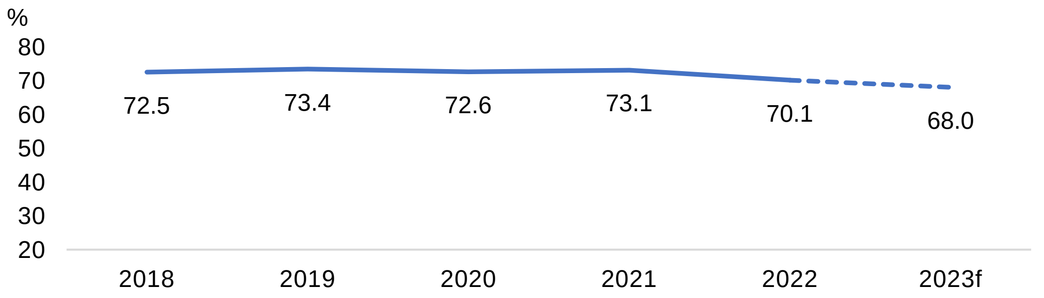
Source: Statistics Mauritius - National Accounts Estimates (September 2023)

Figure 7. Key GDP-related indicators



Source: Statistics Mauritius - National Accounts Estimates (September 2023)

Figure 8. Household expenditure as a % of GDP at market prices



Source: Statistics Mauritius - National Accounts Estimates (September 2023)

Investment outlook

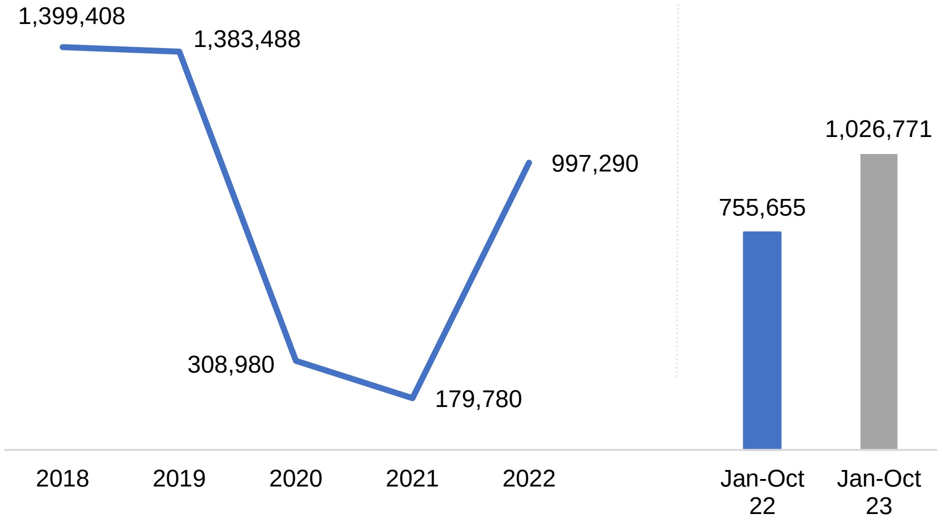
Real GDP growth in 2023 would, to a noticeable extent, be underpinned by the unfolding of key investment projects in various fields and sectors, notwithstanding their notable import content, the time taken for their materialisation and the high cost of materials. Specifically, public sector investment would grow by a significant extent on account of pursuance of works with respect to the Metro Express project, the expansion of the road network, construction of social housing units, initiatives to boost capabilities in terms of water capture and distribution, drains upgrading programmes as well as other infrastructural works to meet national socio-economic objectives, notably in the health and education sectors. As for private sector investment, it is also projected to post a notable growth outcome this year, with the main undertakings including (i) Smart City and land parcelling projects (with major operators and landowners parcelling traditional sugarcane land for residential purposes); (ii) initiatives in the context of the Property Development Scheme and high-end real estate activities; (iii) development of office space in various locations; (iv) works with respect to shopping malls; (v) construction and renovation of hotels; and (vi) projects across other economic sectors, including manufacturing as well as healthcare and wellness. Consequently, the national investment ratio is expected to oscillate around 22% of GDP in 2023, which represents a welcomed improvement from last year's estimate and a commendable achievement in the current global context, but which, at the same time, calls for sustained upgrades with a view to progressively moving somewhat closer to the 25% mark deemed important for the country to realise its economic development ambitions in an assured and continuous manner. That said, it is particularly comforting to take cognizance of the High-Level Committee chaired by the Prime Minister, insofar as it is geared towards boosting national investment – including initiatives pertaining to private sector renewable energy supply – while addressing any observed bottlenecks and fast-tracking the unfolding and materialisation of earmarked projects. Worth highlighting also, the Public-Private Sector Joint Committee, under the Chairmanship of the Minister of Finance, Economic Planning and Development, is an important enabler contributing to channel and propel investments at various levels.

Sectorial prognosis

Noteworthy recovery in tourism

Furthermore, the country's growth trajectory for 2023 would be driven by wide-ranging sectorial foundations, in spite of making allowance for pressures faced in some areas, including in terms of contained, albeit recovering, private demand from key export markets and impacts on the operating costs of business operators in the context of high, despite ebbing, inflationary levels. As a major pillar of the Mauritian economy, tourism would be an influential engine of the country's GDP growth this year – while exerting positive spillover effects on other sectors such as wholesale and retail trade, aviation and other segments of the services sector – buttressed by continued pent-up private demand internationally in spite of strains thereon amidst higher cost of living in particular, currency dynamics regarding the euro and pound sterling, sustained marketing efforts as well as reinforced collaboration between the public and private sectors. Latest figures show that tourist arrivals attained 1,026,771 for the January to October period, which represents a rise of 35.9% compared to last year's corresponding period and accounts for as high as 93.1% of the pre-pandemic level (i.e. in the same period of 2019), chiefly supported by vastly-improved performances with respect to established and emerging markets such as France, the United Kingdom, Reunion Island, Germany, South Africa, India, Malaysia, Saudi Arabia, United Arab Emirates, China and Australia. Based on latest official figures, this has contributed to gross tourism earnings reaching Rs 60.8 billion for the January to September period, which corresponds to a year-on-year rise of 46.1%, with this improvement being, to some extent, also explained by the evolution of the rupee and higher estimated tourist spending per day. As the situation stands, tourist arrivals are expected to post notable year-on-year growth rates during the closing months of 2023 and this positive trend is anticipated to subsist while entering into 2024 – as gauged by interesting forward bookings being posted by key operators in the higher-end and lower-end segments – with the industry likely to benefit from the gradual strengthening of flight connectivity and air seat capacity, sustained efforts to further diversify markets to be tapped into (with targets including India, China, South Korea, Northern and Eastern Europe, and the Persian Gulf), improved quality and breadth of services, helped by hotel renovation, as well as reinforced human resource capabilities. Nevertheless, the tourism sector is foreseen to continue facing up to a tough and complex international landscape. While acknowledging the robust worldwide tourism recovery momentum being witnessed, the latest World Tourism Barometer of the UN World Tourism Organization (UNWTO) stressed on the impact of global economic challenges and mounting geopolitical tensions on the preferences being exhibited by tourists, as they increasingly seek value for money, travel closer to home and make relatively shorter trips. The report highlighted that (i) high inflation and oil prices are triggering increased transport and accommodation costs; and (ii) rising cost of living and interest rates are putting pressures on household budgets and spending patterns across markets globally. That said, the Mauritian tourism sector is well poised to further buttress its competitiveness in the periods ahead, helped by ongoing endeavours by private and public stakeholders to foster an inclusive, sustainable, green and resilient industry, alongside enriching the country's value proposition, with emphasis on cultural as well as medical and wellness tourism. In the wake of the fast-changing and demanding international context, it is, as we would concur, imperative for Mauritius to tackle key medium-term challenges to which the tourism sector is exposed, including (i) adapting to evolving customer exigencies; (ii) confronting the repercussions of climate change, while preserving the country's ecological system; and (iii) actively promoting community empowerment.

Figure 9. Total tourist arrivals



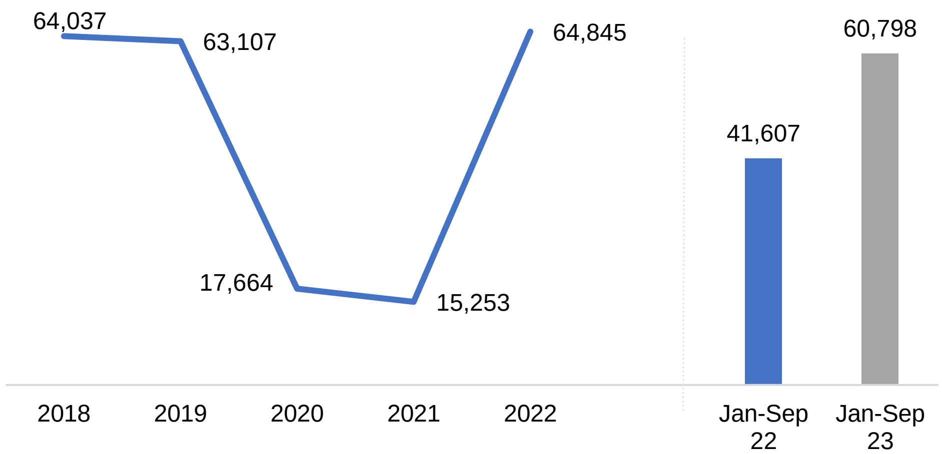
Source: Statistics Mauritius - Tourism Statistics

Table 3. Main sources of tourist arrivals across markets

Established markets	Jan-Oct 23	% change (year-on-year)	Emerging markets	Jan-Oct 23	% change (year-on-year)
France	246,265	40.9%	India	44,732	49.0%
United Kingdom	117,618	3.9%	Saudi Arabia	18,909	14.1%
Reunion Island	109,362	120.3%	Australia	15,231	373.7%
Germany	92,992	19.2%	United Arab Emirates	13,188	15.0%
South Africa, Rep. of	80,632	9.4%	People's Rep. of China	6,780	433.9%

Sources: Statistics Mauritius, Bank of Mauritius, SBM Staff Estimates

Figure 10. Gross tourism earnings (Rs million)



Source: Bank of Mauritius – Monthly Statistical Bulletin

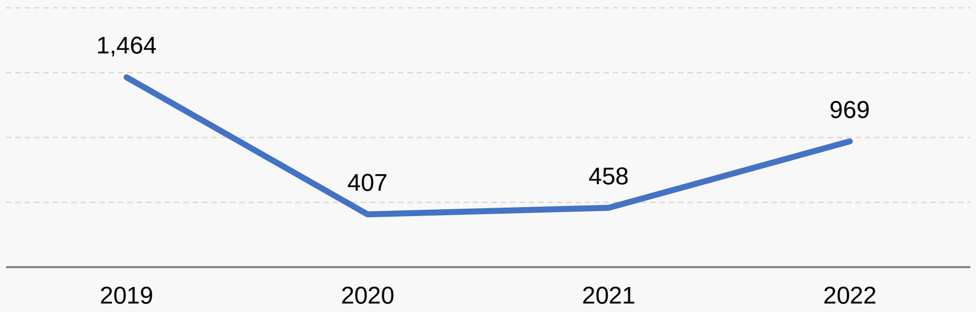
Box 1: Evolution of international tourism as per the UNWTO World Tourism Barometer

Recent movements

As per the latest UNWTO report, for the January to July 2023 period, international tourism recovered 84% of pre-pandemic levels, following a strong second quarter and the early part of the Northern Hemisphere summer season. Travel demand continued to show remarkable resilience and sustained recovery, amid economic and geopolitical challenges. An estimated 700 million tourists travelled internationally between January and July 2023, about 43% more than in the same months of 2022, though 16% fewer than in 2019. Prospects for September-December 2023 point to continued recovery, according to the latest UNWTO Confidence Index, though at a more moderate pace following the peak travel season of June-August. These results show that international tourism remains well on track to reach 89-95% of pre-pandemic levels in 2023.

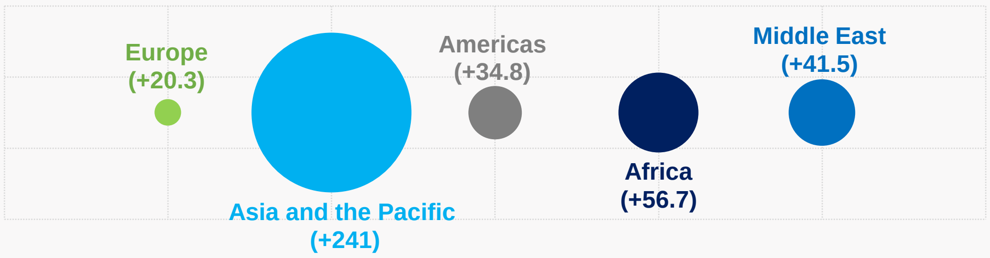
Key trends and statistics

Total international tourist arrivals (millions)



Share of international tourist arrivals by region in 2022

Arrivals growth (%) by region (Jan - Jul 2023 vs Jan - Jul 2022)



Dependability and attractiveness of the Mauritian International Financial Centre (IFC)

At another level, the country's growth path for this year would be underpinned by the continued resilience and maturity development of the Mauritian IFC, as it gathers pace. Indeed, while welcoming a growing range of business players across various fields, the latter has further positioned itself as a trustworthy, competitive and transparent jurisdiction and gateway that channels and drives quality and value-added trade, foreign investment and business services across the African and Asian continents, supported by a stimulating value proposition, an attractive fiscal regime, a sound investment climate, a fitting legal framework and a gratifying ease of doing business. In the same vein, while we are at the beginning of the journey, it is interesting to take cognizance of the authorities' intention of propelling the Mauritius for Africa agenda and transforming the country as an important economic hotspot that contributes to the advancement, prosperity and empowerment of the African continent, alongside capitalising on its appealing short and medium term business development avenues, in the wake of its rapid urbanisation, expanding middle classes, booming consumer markets as well as its young and fast-growing workforce. As key pillars of the Mauritian IFC, financial and insurance activities as well as professional and business services should, on the whole, post noticeable growth rates in 2023 on the back, essentially, of their generally healthy business models, continued headway being realised in terms of market expansion and deepening as well as the supportive nationwide economic environment.

Other sectorial outlooks

Moreover, the country's GDP growth for 2023 would be driven by the continued encouraging performance of the ICT sector on the back of its competitiveness headway and diversified business activities. Besides, the construction sector is expected to post a double-digit growth rate, in line with the list of public and private investment projects. For its part, the transportation and storage sector would fare well, on the basis, notably, of logistics and freight activities, while wholesale and retail trade would post an appreciable expansion rate, with the sustained buoyancy being observed with respect to the new vehicle market capturing the attention. As for the seafood industry, it is likely to uphold its resilient growth track on the back of prolonged capacity building endeavours and conducive operating conditions. Reflecting efforts made to spearhead the development of entrepreneurship and the local economy as well as to boost import substitution, the domestic oriented manufacturing sector should witness a comforting growth, in spite of pressures on the cost of living as well as higher input prices and production costs in some instances. Of note also, the renewable energy sector has been gathering some good momentum this year. On the other hand, whilst benefitting from currency dynamics and reinforced operational capabilities, the textile sector would, nonetheless, register a dimmed growth outcome in the wake of tepid, albeit improving, global demand and the industry's endogenous dynamics.

Box 2: Competitiveness and resilience of the Mauritian IFC

A success story

Over time, Mauritius has harnessed its image as an IFC of repute and substance, while positioning itself as a centre of excellence and a reliable hub for structuring and channelling investments. The Mauritian IFC continues to support nationwide value added and employment creation as well as to attract a broadening array of renowned, established and nascent international businesses and investors. In spite of challenges faced, the Mauritian jurisdiction has nurtured attributes of predictability, certainty and stability. It has constantly innovated and proposed a stimulating value proposition as well as robust physical and technological infrastructures that have positioned the country as an ideal trading platform and an effective conduit for driving sustained foreign investments into Africa. Key business poles propounded by Mauritius include the following non-exhaustive list: (i) exports of goods and services; (ii) cross-border investment and corporate banking, with mounting emphasis on tapping into renewable energy and ESG projects and endeavours, alongside playing a meaningful role in facilitating the achievement of the UN Sustainable Development Goals by African countries; (iii) private banking and wealth management; (iv) avenues for operators to structure businesses, for issuers to raise capital and for companies to seek a listing; (v) framework for new tools and activities regarding FinTech, Virtual Assets and Initial Token Offering Services; (vi) emerging products, e.g. peer-to-peer lending, crowdfunding and Artificial Intelligence-enabled services; (vii) mediation/arbitration centre; and (viii) Global Headquarters Administration.

Unique selling points

The main factors that are contributing to the development of the Mauritian IFC include the following:

- ✓ Strategic location of Mauritius, which facilitates access to the African, Asian and Middle East markets
- ✓ Investment-grade sovereign rating assigned by Moody's Investors Service and Standard and Poor's
- ✓ Sound macroeconomic environment; stable social and political regimes, with very low volatilities
- ✓ Stimulating investment climate, backed by business facilitation services and arrangements
- ✓ Innovative and customised products and services, in tune with global quality standards
- ✓ Robust and continuously-upgraded institutional, regulatory and legal environments
- ✓ Commitment to implementing tax good governance principles, in line with international norms
- ✓ Absence of exchange controls; attractive corporate and personal income tax regimes
- ✓ Security provided by the signature of Investment Promotion and Protection Agreements
- ✓ Sound banking industry, with solid liquidity buffers and healthy capital adequacy ratios
- ✓ Highly qualified, technically-savvy and bilingual workforce across economic sectors
- ✓ Adherence to regional trade blocs such as AfCFTA, SADC and COMESA; signature of Comprehensive Economic Cooperation and Partnership Agreement with India; Free Trade Agreement with China

44
Investment Promotion and Protection Agreements (IPPAs)
*[of which, **24** with Africa]*

- **30** signed and in force, *of which **11** with Africa*
- **14** awaiting ratification, *of which **13** with Africa*
- **6** awaiting signature, *of which **5** with Africa*

Source: Economic Development Board, website accessed on 21-Nov-2023

Snapshot of key sectors within the Mauritian IFC

Percentage share of Gross Value Added at current basic prices (2022)

13.5%
Financial and insurance activities

5.5%
Professional, scientific and technical activities

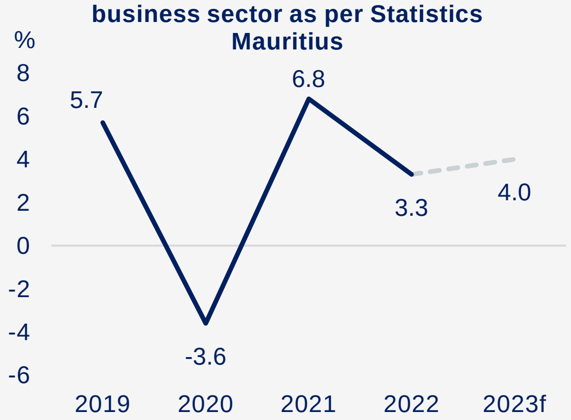
including

8.4%
Global business[1]

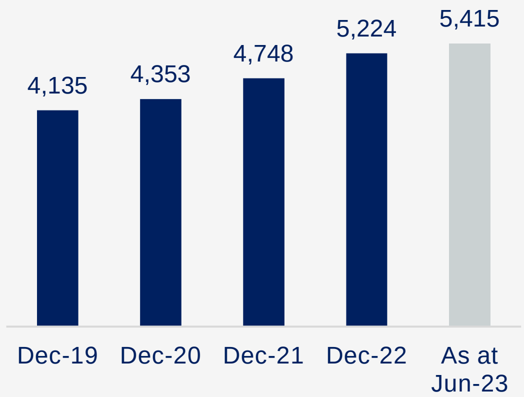
Number of live companies as at October 2023

Global Business Company[2]	Authorised Company	Management Company[3]
12,714	6,219	205

Real growth rate of the global business sector as per Statistics Mauritius



Direct employment - Management Company



Notes:

[1]The global business sector includes activities of GBCs and services purchased by GBCs from local enterprises (e.g. management, accounting, auditing, legal, advertising, real estate, banking, etc.)

[2]Global business companies include Global Business Corporations / Global Funds

[3]Management Companies include Corporate Trustees as from May 2008

Sources: Statistics Mauritius, Financial Services Commission

Unemployment

In light of the economic recovery impetus, rising investment levels, the gradual healing of labour market conditions and job creation measures put in place by the authorities, the country's unemployment rate improved by just under one and a half percentage points to attain 7.7% in 2022 as per official provisional figures, with improvements observed with respect to both men and women. For 2023, official figures show that the joblessness rate has, on a reassuring note, declined further to attain 6.7% and 6.4% in the first and second quarters respectively. That said, some recent statistics deserve continued consideration, especially the unemployment rates posted by women and the youth. In addition, the country's labour activity rate – which is the ratio of the labour force to the population aged 16 years and above – stood at 58.2% in the second quarter of 2023, with the corresponding rate for women (at 47.3%) warranting attention, even though this metric has comfortingly improved from the 43% posted in 2022.

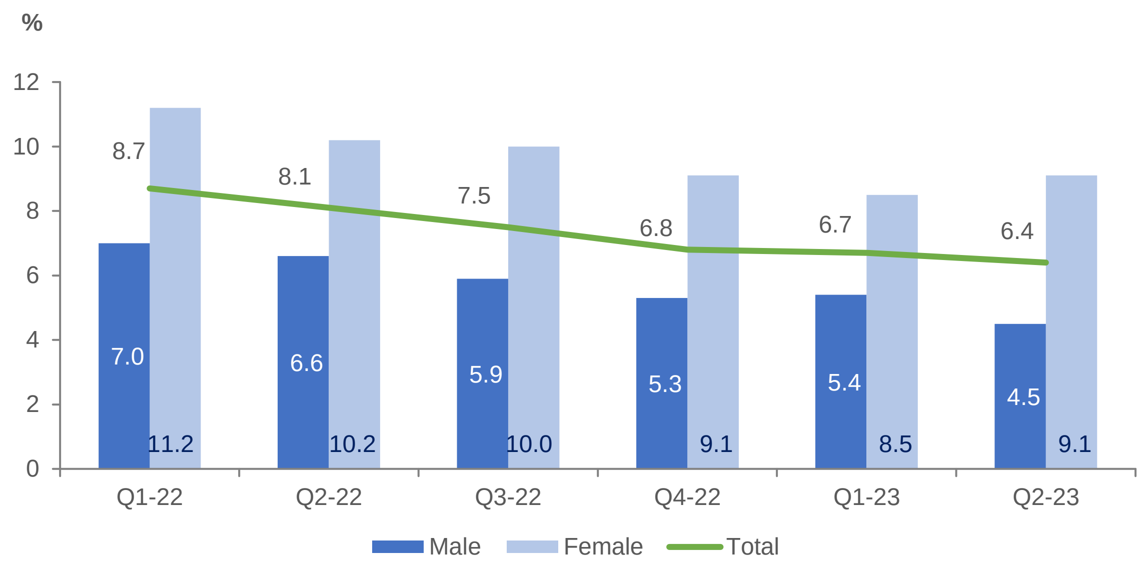
Looking ahead, though risks prevail in view, especially, of the wobbly global environment, the country's unemployment rate is expected to further decline in 2023 when compared to last year, boosted by the economic growth trajectory, improved sectorial performances and geared up investment trends. Over the short to medium terms, while acknowledging current policy efforts and being mindful of the country's relative lack of natural resources, the key challenges for Mauritius are to (i) further curtail its unemployment rates across sectors, gender and age groups by supporting nationwide production levels and optimising the functioning of labour markets; and (ii) broaden the pool of resources that can be availed of in view of spearheading the nationwide socio-economic progress to even greater heights, alongside tackling concerns expressed by some industries regarding the relative deficiency of labour supply with advocated skills to accompany them in their growth endeavours. In the same spirit, creating appealing job opportunities for the upcoming labour force remains of paramount importance, with the International Labour Organization underscoring, recently, that *"Targeted investments in the green, blue, digital, creative and care economies hold great potential to provide decent jobs for young people while setting economies on path towards greater sustainability, inclusiveness and resilience."*

Table 4. Key labour market indicators

	Unemployment rate (%)			Labour activity rate (%)		
	2020	2021	2022	2020	2021	2022
Male	7.8	8.1	6.0	69.3	65.3	69.2
Female	11.1	10.6	10.2	45.3	41.1	43.0
Total	**9.2**	**9.1**	**7.7**	**56.9**	**52.8**	**55.7**

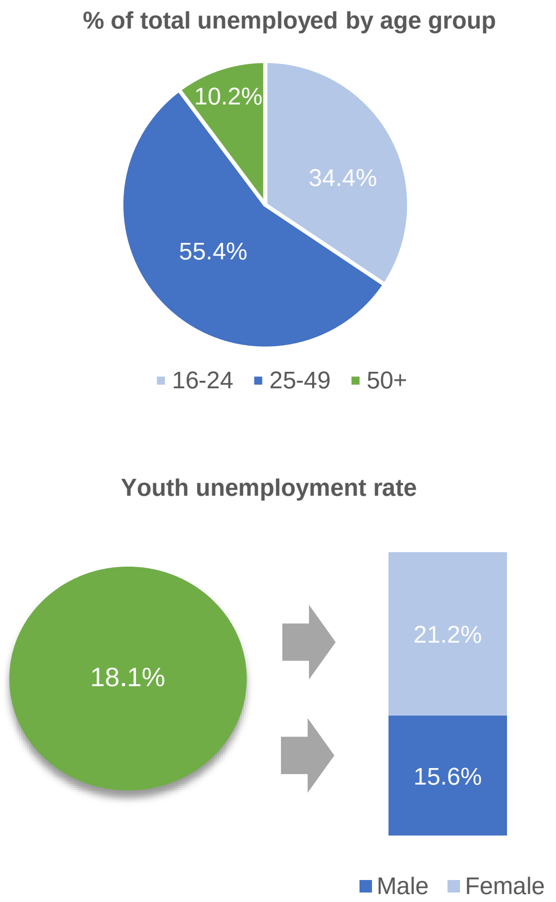
Source: Statistics Mauritius - Labour Force, Employment and Unemployment

Figure 11. Quarterly unemployment rate



Source: Statistics Mauritius - Labour Force, Employment and Unemployment

Figure 12. Unemployment by age group (Q2-2023)



Sources: Statistics Mauritius - Labour Force, Employment and Unemployment, SBM Staff Estimates

Inflation

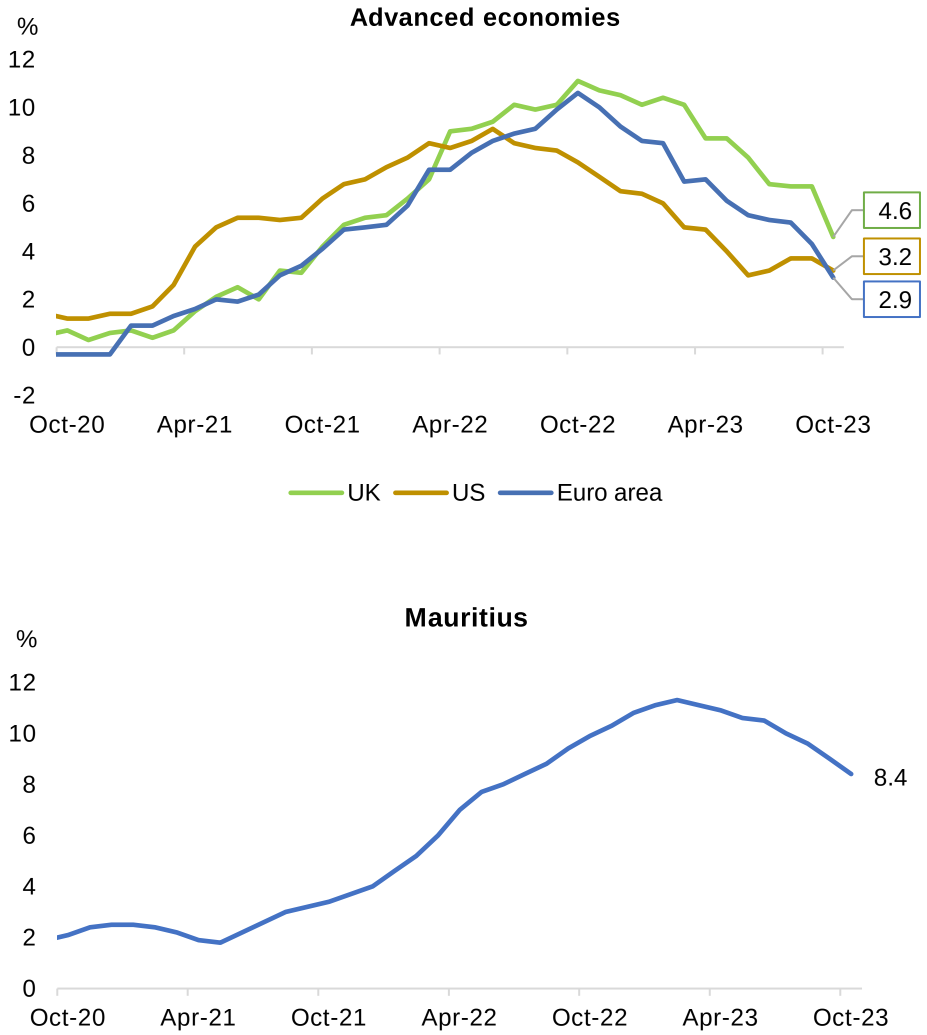
Latest estimates

As per the IMF, global inflation is steadily declining from its multi-decade peak recorded in 2022 and is being gradually brought under control, but both headline and underlying measures still remain relatively high on the back of still-elevated commodity prices and the pass-through effects of rising consumer prices, thus leading to continuously tight global monetary conditions. In the US, after hitting a 40-year high of 9.1% in June 2022, inflation slowed in subsequent months on the back, notably, of aggressive interest rate hikes brought about by the US Federal Reserve, before cooling down to 3.2% in October last, thus concurring with comments made by observers that the indicator is showing encouraging signs. As for the euro area, headline inflation moved down to reach 2.9% in October – notably due to strong base effects, past interest rate increases and falling energy prices – which is the lowest level reached since October 2021, while core inflation has also been easing in recent months. That said, the situation continues to warrant attention, with the European Central Bank arguing, in its recent Monetary Policy Statement, that *"Inflation is still expected to stay too high for too long, and domestic price pressures remain strong."* Regarding the UK, inflation has moved away from its peak of 11.1% posted around a year ago. Whereas the movement was slower-than-anticipated, inflation maintained its downtrend and attained 6.7% in September 2023. It, thereafter, significantly slowed down to land at 4.6% in October 2023, with the deceleration in core inflation being viewed as quite encouraging by several observers.

Forecasted trends

In Mauritius, headline inflation has, in line with observed international tendencies, registered an uninterrupted upward movement before reaching a peak of 11.3% in February last. Underlying measures of inflation have also risen, as gauged by the evolution of core inflation rates. Overall, the country's inflation uptrend has been largely attributed to acute exogenous shocks which are beyond the country's direct control, as a result of geopolitical events and international developments, coupled with the second-round effects on the prices of an extended range of consumer goods. Specifically, rising inflation has, to different degrees, been triggered by major hikes in food and energy prices following the war in Ukraine, higher prices of vegetables in the wake of adverse climatic conditions, a relative, albeit fragile, recovery in the demand for goods internationally, and the continuous strengthening of the US dollar on global markets. Comfortingly, headline inflation has embarked on a major downtrend for eight consecutive months, before attaining 8.4% in October 2023, on the back, amongst others, of a relative easing of commodity prices on the worldwide scale. Illustratively, the Food Price Index of the UN Food and Agriculture Organization averaged 120.6 in October 2023, i.e. 14.8 points below its corresponding level a year ago. Other factors include lower freight costs in the wake of improving global supply chain conditions and the tightening of the benchmark interest rate by the Central Bank. Looking ahead, headline inflation is, barring any price shocks on the worldwide scale, foreseen to further decline in the closing months of the year and to hover around 7% in December 2023 as per current baseline projections, underpinned especially by the positive statistical impact of a high computational base, successive hikes in market interest rates and adjustments in vegetable prices. For the periods ahead, the evolution of international oil prices is subject to non-negligible uncertainties, with future trends to be largely dependent on the scale and depth of the geopolitical situation in the Middle East as well as any repercussions on specific oil-producing nations, amidst any investor concerns about potential supply disruptions. In addition, inflation in Mauritius would, to different magnitudes, be shaped by dynamics at various levels, including global shipping freight rates, currency trends and climate change conditions.

Figure 13. Evolution of headline inflation



Sources: Eurostat, Office for National Statistics (UK), US Bureau of Labor Statistics, Statistics Mauritius

Table 5. Headline inflation by category

Division	Oct-23 (%)
Food and non-alcoholic beverages	9.9
Alcoholic beverages and tobacco	10.3
Clothing and footwear	4.3
Housing, water, electricity, gas and other fuels	15.1
Furnishings, household equipment and routine household maintenance	7.1
Health	6.7
Transport	8.5
Communication	0.0
Recreation and culture	2.6
Education	2.3
Restaurants and hotels	10.5
Miscellaneous goods and services	5.9
Overall headline inflation	**8.4**

Sources: Statistics Mauritius, SBM Staff Estimates

› The Financial Sector

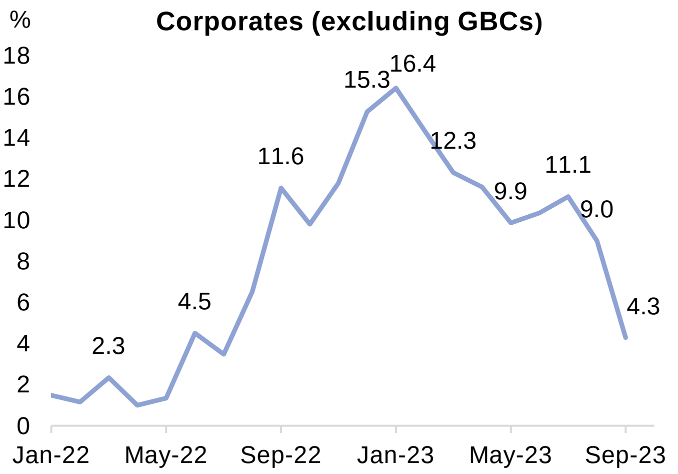
Banking and financial stability

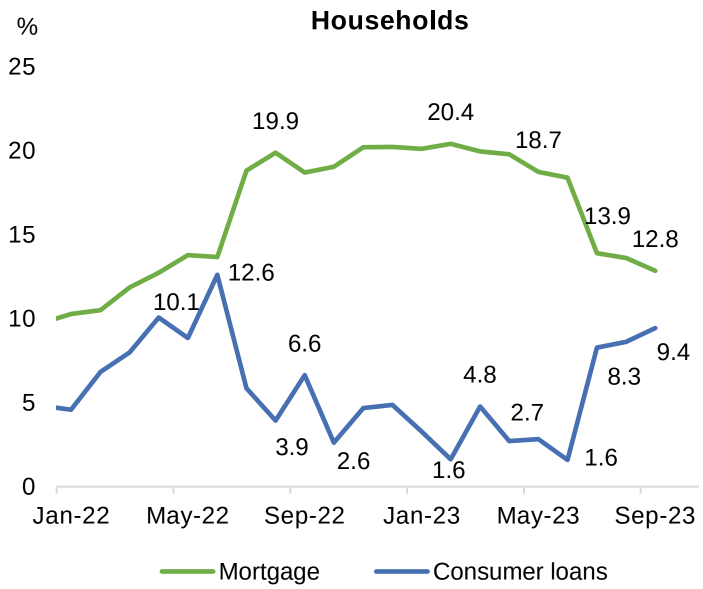
Industry resilience

Reflecting its sound fundamentals and credentials, the banking and financial system has preserved its stability, resilience and soundness in recent months, underpinned by the generally healthy business models adopted by key players as well as a fitting and continuously reinforced legal and regulatory framework. Recently, the Bank of Mauritius stressed that *“Based on the findings of the latest stress testing exercise, vulnerabilities in the banking system have receded in the first half of 2023 relative to 2022.”* In its latest Credit Opinion on Mauritius, Moody’s Investors Service shed light on the country’s financial and economic stability, while reflecting on its ability to effectively manage financial risks. Tellingly, as at end-June 2023, the banking sector’s capital adequacy ratio stood well above the applicable minimum regulatory requirements, while the liquidity coverage ratio remained comfortable. Of note also, the industry’s gross NPL ratio reached 4.2% as at the latter period, with an appreciable provision coverage ratio of 56.3%. In the same vein, banks have continued to support the real sector, with total credit to the private sector posting a year-on-year growth rate of 7.5% in July 2023, including household credit growth of 12.2%. In support of the industry’s positioning and the country’s macroeconomic stability, the Bank of Mauritius has continued to oversee the functioning of the domestic and foreign exchange markets, with active open market operations helping to cope with rupee excess liquidity prevailing in the system, while regular liquidity management initiatives by the Central Bank have contributed to mitigate exchange rate volatilities and achieve reasonable forex supplies to the market. Of note, after depreciating by a noticeable margin till July 2023 on the back notably of international developments and the underlying strength of the US dollar, the effective exchange rate of the Mauritian rupee has appreciated by a non-negligible extent since, against the backdrop of the evolving global environment as well as the unfolding of demand and supply conditions on the domestic scene.

Looking ahead, the robustness of the country’s banking and financial system would be dependent on both international and domestic forces. While the notable real GDP growth trajectory being embarked upon by Mauritius is a positive sign underpinning the activities and strength of the banking sector, the latter’s performance remains subject to policy orientations, broad-based economic conditions and the appeal of the business climate in light of fast-changing market and industry trends and exigencies. In this respect, whilst the soundness of credit demand has, so far, been encouragingly upheld in the banking industry and continuous monitoring thereof is being undertaken by the authorities, due attention is warranted with respect to the current elevated, albeit declining, headline inflation and the resulting interest rate environment due to any potential effects on loan quality and debt servicing.

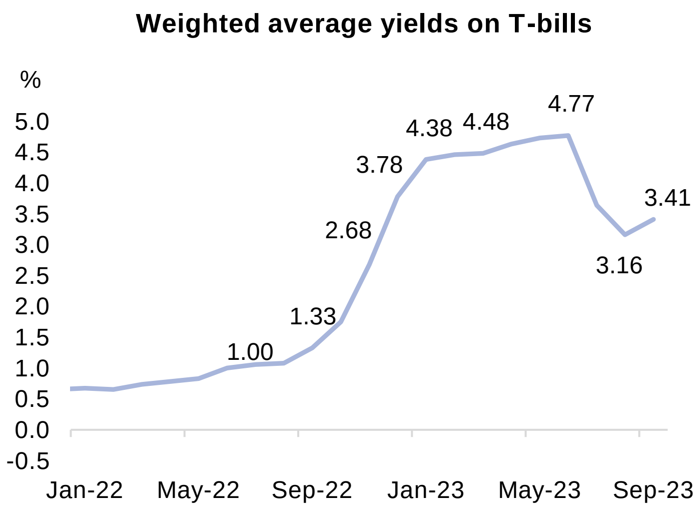
Figure 14. Annual growth of bank loans to the private sector

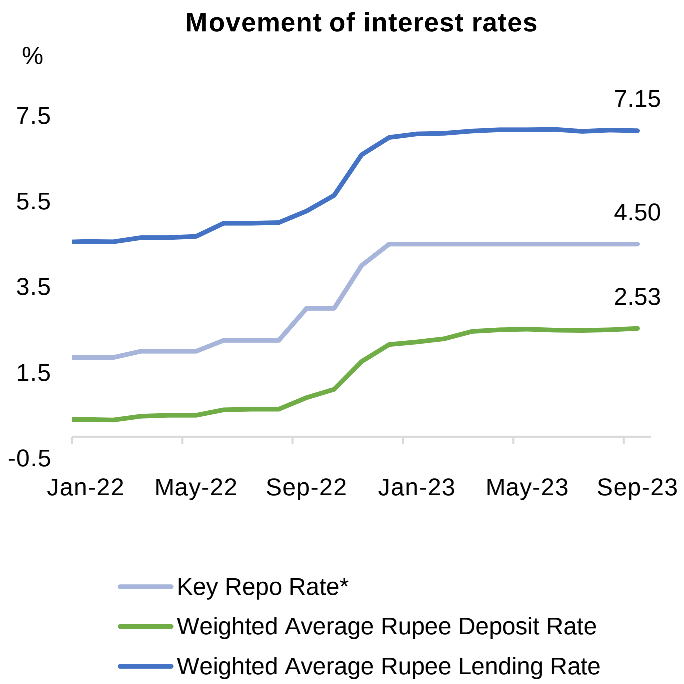




Sources: Bank of Mauritius, SBM Staff Estimates

Figure 15. Evolution of key market interest rates

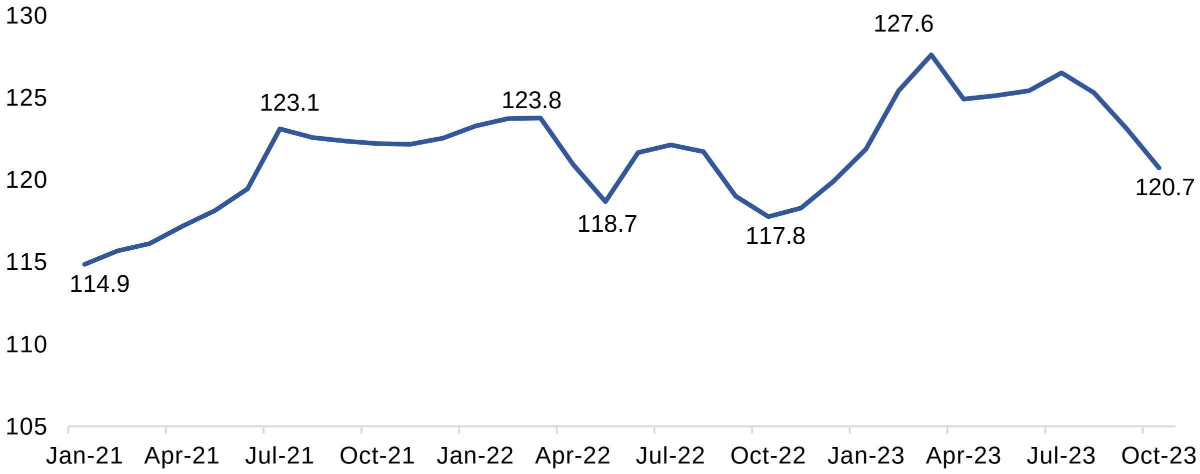




** The Key Repo Rate has been replaced by the Key Rate as per the new Monetary Policy Framework of the Bank of Mauritius, effective as from 16 January 2023*

Sources: Bank of Mauritius, SBM Staff Estimates

Figure 16. Effective exchange rate of the Mauritian rupee (MERI2)



Notes:
(i) The Mauritius Exchange Rate Index (MERI), which is a weighted average of bilateral exchange rates for the Mauritian rupee, is a summary measure of the rupee's movements against the currencies of its important trading partners
(ii) MERI2 is based on the currency distribution of merchandise trade and tourism earnings
(iii) The base year of the MERI is January - December 2007 = 100
(iv) An increase (decrease) in the index indicates a depreciation (appreciation) of the rupee

Source: Bank of Mauritius

Table 6. Evolution of main currencies against the Mauritian rupee

Currencies as at 20-Nov-2023	Change (%)		
	Year-on-Year	Year-to-date	Annual average
USDMUR	0.9	0.4	2.4
EURMUR	6.5	3.2	5.1
GBPMUR	6.1	4.4	2.7

Note:
An increase (decrease) in change indicates a depreciation (appreciation) of the rupee

Sources: Bank of Mauritius, SBM Staff Estimates

The Fiscal Sector

Public finance

As the situation stands, the Mauritian economy can look back at the repercussions that had emanated from the pandemic and take comfort from the maintenance of resiliently healthy fiscal and debt metrics, as shown by official figures. Helped by fiscal consolidation efforts and the economic recovery process, the budget deficit is estimated at 3.9% of GDP in FY 2022/23, while being anticipated to improve to 2.9% in FY 2023/24. In the same vein, latest figures show that the public sector net debt has pursued a sustained downtrend to attain 70.2% of GDP as at end-September 2023, while the gross figure reached 79.6% of GDP after catering for cash and cash equivalents and equity, with total debt levels being predominantly domestically-sourced. Reflecting the country's headway, the 'Fiscal Strength' sub-rating assigned to it in the course of Moody's assessment has, lately, been improved to baa3, from ba2.

Looking ahead, alongside being guided by the need to uphold macroeconomic stability, the enounced strategy of the authorities is to maintain a prudent fiscal stance, while directing resources towards supporting the middle-income and vulnerable groups and implementing projects and programmes to consolidate the economic recovery. Over the short and medium terms, the country's fiscal ratios are, in all likelihood, expected to remain in generally appreciable territories in the wake of growing economic activities, a higher GDP base and dedicated policy measures, which should – in conjunction with other factors and dynamics – have a relatively favourable impact on national debt indicators. Nonetheless, potential fiscal vulnerabilities call for monitoring, especially given the unsettled global landscape, volatile international financial and foreign exchange markets, the high interest rate environment as well as any contingencies associated with climate change and global warming. This overall context, consequently, highlights the need for Mauritius to keep on harnessing adequate fiscal space and buffers to bolster its socio-economic advancement, with emphasis on (i) striking the right balance between the maintenance of social safety nets to protect the vulnerable sections of the population and the imperativeness of growth-enhancing expenditures, notably in physical infrastructures, helped by strengthening public investment management and the recourse to Public Private Partnerships; (ii) upholding the attractiveness of the income tax regime towards nurturing a conducive investment climate; (iii) reinforcing tax administration and revenue mobilisation arrangements in view of boosting the buoyancy of the tax system; (iv) tackling debt sustainability considerations and further reducing debt ratios over the medium term, while preserving the country's investment-grade sovereign rating status and facilitating access to international financial markets whenever required; and (v) implementing well-timed medium-term fiscal plans, backed by a concerted mix of policy measures. On a long-term basis, the gradual ageing of the population calls for a prudent approach to achieving fiscal sustainability.

Figure 17. Evolution and composition of public sector debt

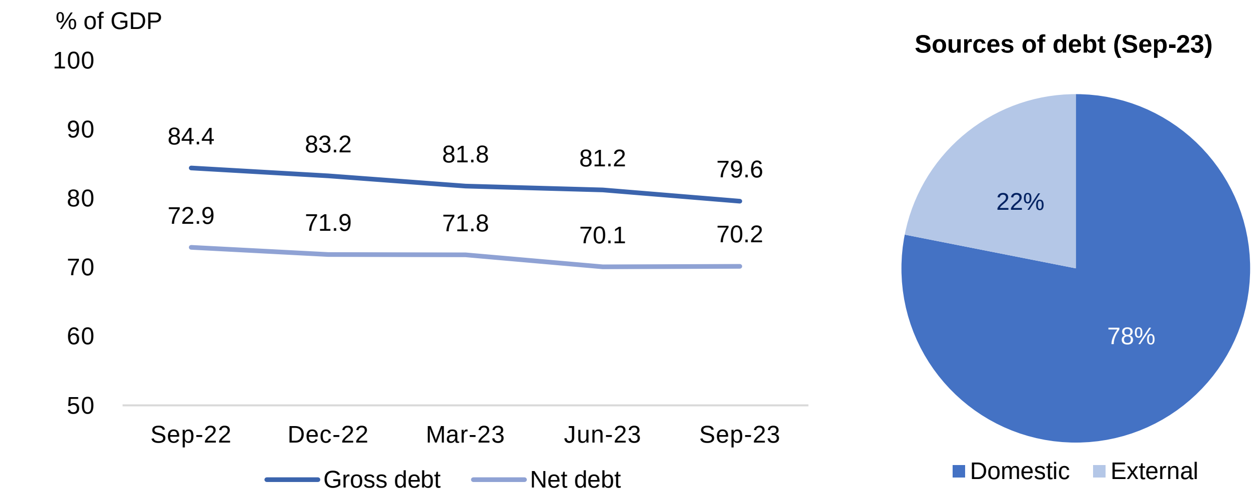
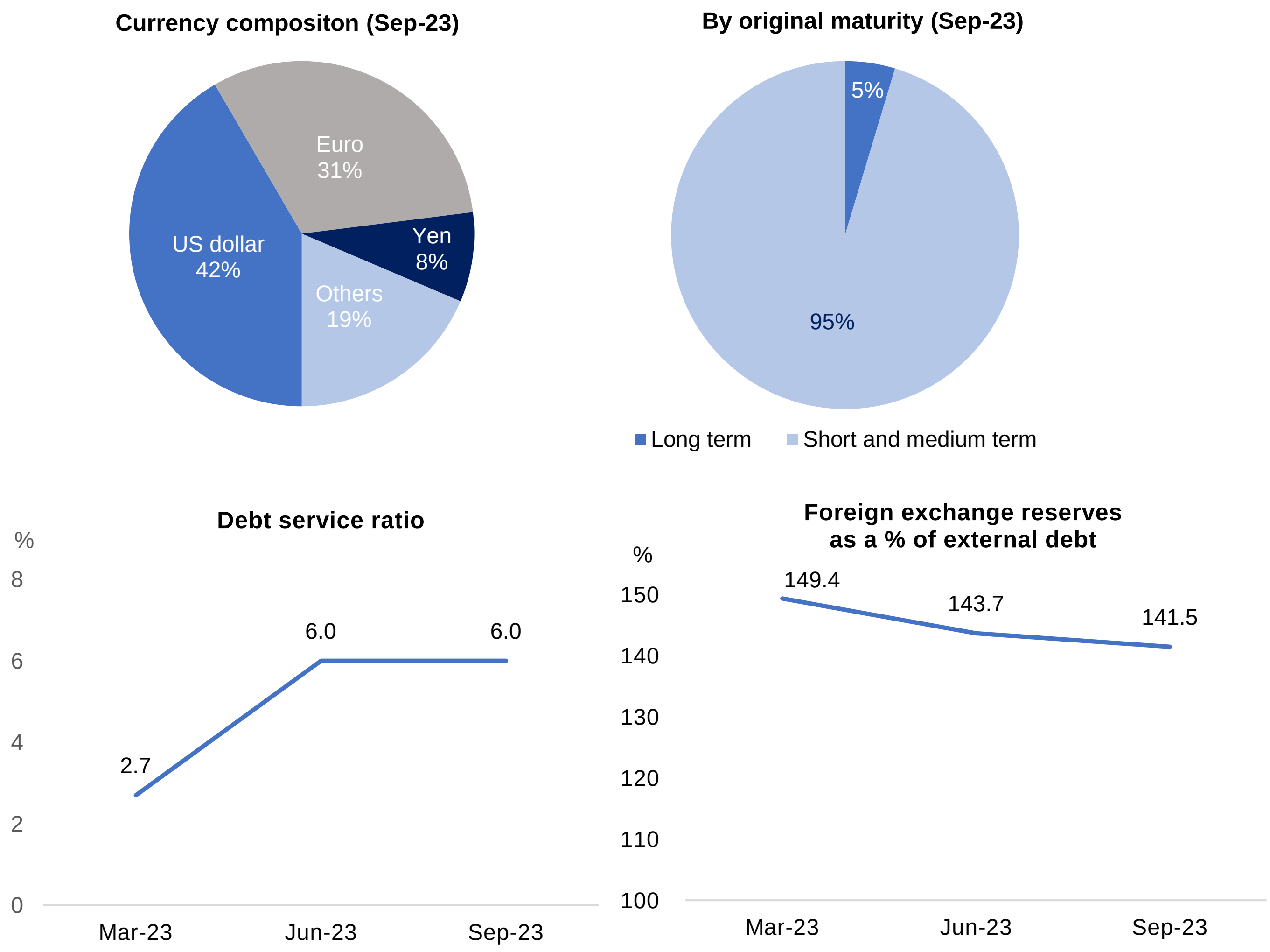


Figure 18. The national external debt



Note: Excluding capital repayment of USD 250 million relating to a short-term bridging facility, the debt service ratio would be 2.8% for both years ended June 2023 and September 2023

Source: Ministry of Finance, Economic Planning and Development - Debt Data (September 2023)

Table 7. Evolution of Budgetary Central Government operations

Rs million	Jul 2020- Jun 21	Jul 2021-Jun 2022	Jul 2022-Jun 2023
Revenue (A)	**98,513.1**	**133,376.6**	**148,359.5**
Taxes	86,028.1	107,945.9	129,787.2
Others	12,485.0	25,430.8	18,572.3
Expense (B)	**176,725.9**	**154,040.5**	**169,037.6**
Compensation of employees	32,033.5	37,135.9	37,143.1
Social benefits	45,654.8	47,279.3	54,435.9
Others	99,037.6	69,625.3	77,458.6
Gross operating balance (A-B)	**-78,212.8**	**-20,663.9**	**-20,678.2**
Net acquisition of nonfinancial assets (C)	7,608.9	8,091.9	9,142.9
Net lending / borrowing (A-B-C)	**- 85,821.7**	**-28,755.8**	**- 29,821.0**

Figure 19. Central Government revenue distribution (Jul 2022 - Jun 2023)

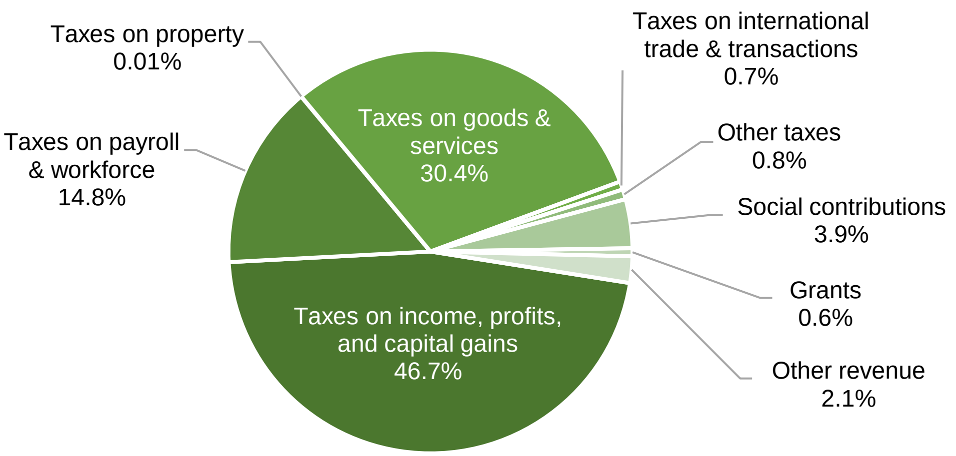
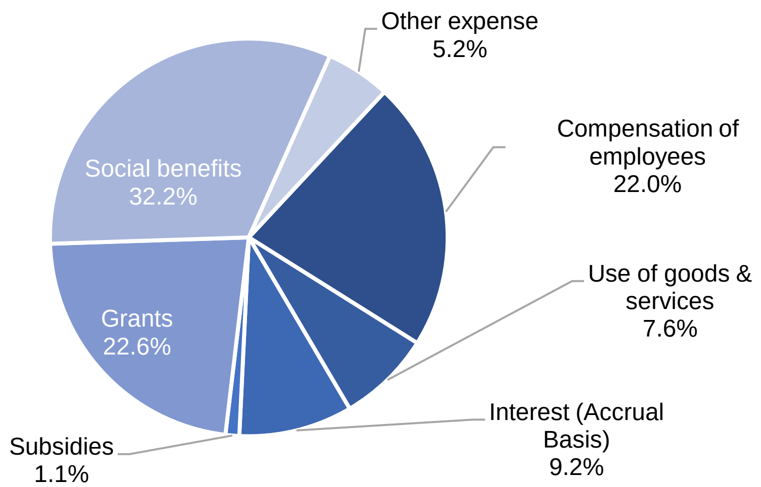


Figure 20. Central Government expense distribution (Jul 2022 - Jun 2023)



Source: Statistics Mauritius - Public Finance (based on compilation by the Ministry of Finance, Economic Planning and Development)

The External Sector

Trends and outlook

As a major achievement, total exports of goods have, as per revised estimates, expanded by 28.7% in 2022 compared to the previous year, with improved performances at the level of domestic exports, re-exports and receipts derived from ship's stores and bunkers. Nonetheless, the balance of trade deficit increased to attain Rs 186.6 billion in 2022, after factoring in the major rise in total imports. For the first semester of 2023, domestic exports and re-exports registered year-on-year growth rates of 7.4% and 14.5% respectively, underpinned by a relative healing of private demand in key export markets, market diversification endeavours and the evolution of the rupee, alongside catering for supportive policies and strategies put in place by the authorities. Specifically, whilst a decline was posted with respect to articles of apparel and clothing accessories in the wake of market and industry dynamics, the exports of seafood, cane sugar as well as machinery and transport equipment went up by noticeable margins. Consequently, the balance of trade deficit for the period marginally improved, after factoring in the nearly flat evolution of total imports, to some extent associated with the decline in the value of refined petroleum products purchased on account, particularly, of evolving market prices. Regarding imports, it can, on the other hand, be added that (i) spending on machinery and transport equipment increased, mainly due to higher nationwide investment levels and the purchase of road vehicles; and (ii) spending on food as well as of beverages and tobacco went up, amidst higher international prices. As for the current account deficit, it attained Rs 15.1 billion or 5.1% of GDP for the first semester of 2023, which marks a significant improvement from the outcome of Rs 35.2 billion or 13.6% of GDP posted in the corresponding period of last year, supported by the perceptible acceleration of tourism earnings, high global interest rates and lower freight costs. In line with those trends, the current account deficit is foreseen to improve to a single-digit figure for 2023 as a whole, as compared to 11.5% of GDP in 2022, notwithstanding potential impacts on the visible trade balance, in the form of commodity price hikes and imports of machinery and equipment to meet investment ambitions. This performance is, thus, expected to support the balance of payments. After coming up from the deficit of Rs 13.9 billion registered last year, the latter indicator is, despite the unstable global context, likely to move into a slight surplus position in 2023. It is projected to benefit from higher gross direct investment inflows – which already reached Rs 13.5 billion during the first semester – as the country reaps the dividends of its appealing value proposition and its positioning as an IFC of repute and substance.

Figure 21. Balance of visible trade

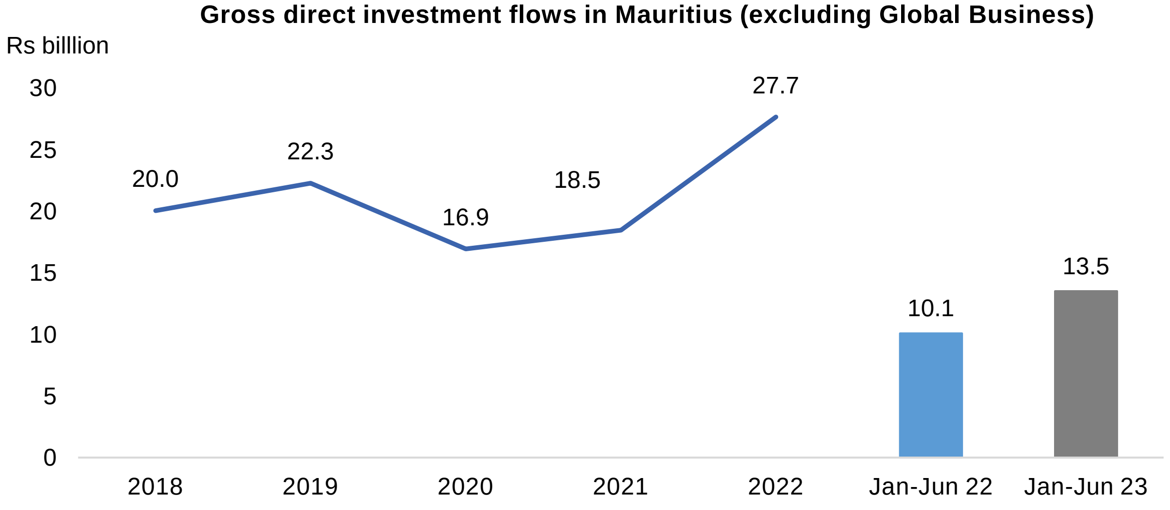
Table 8. Evolution of top exports and imports of goods

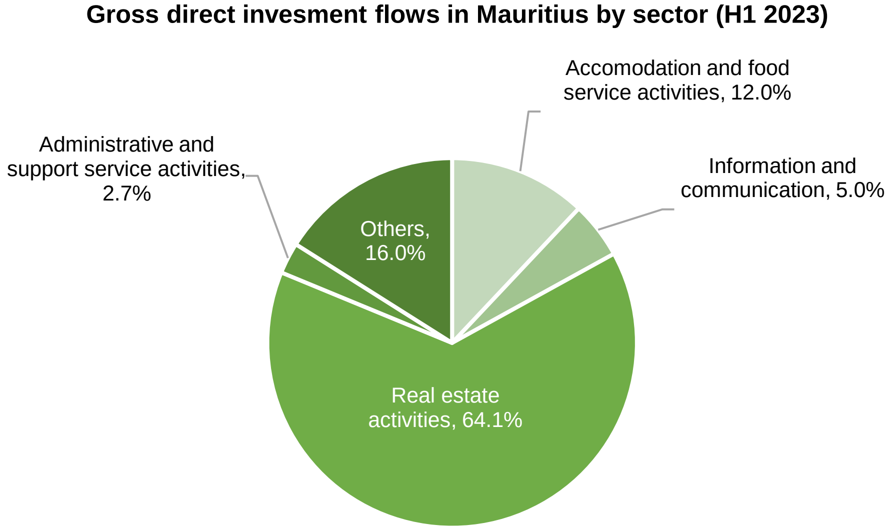
Exports	Jan-Jun 23 (Rs million)	% change over previous year
Food and live animals	16,201	27.9%
Miscellaneous manufactured articles	13,054	-3.7%
Manufactured goods classified chiefly by material	5,569	-11.3%
Machinery and transport equipment	2,513	54.3%
Chemicals and related products	2,039	4.2%

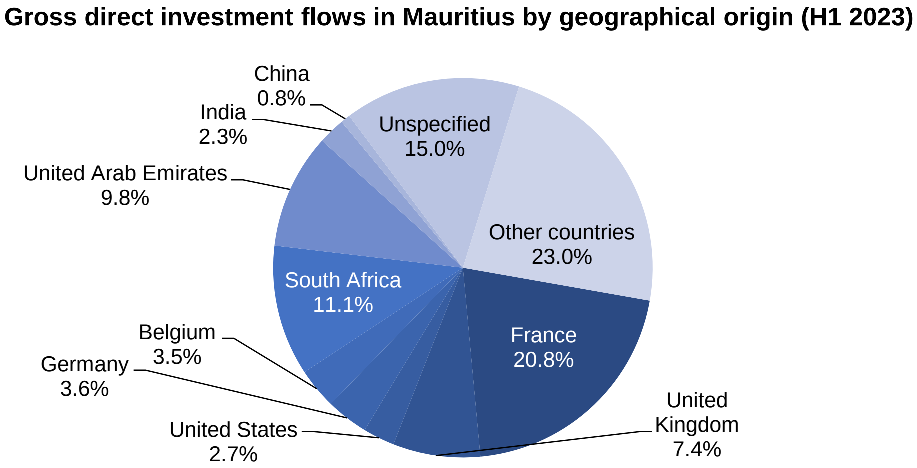
Imports	Jan-Jun 23 (Rs million)	% change over previous year
Machinery & transport equipment	31,812	24.0%
Mineral fuels, lubricants, & related products	29,003	-18.1%
Food and live animals	25,707	9.1%
Manufactured goods classified chiefly by material	18,657	-13.4%
Miscellaneous manufactured articles	12,152	3.6%

Sources: Statistics Mauritius - External Trade (Q2-2023), SBM Staff Estimates

Figure 22. Evolution and distribution of foreign direct investment







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Credits

Chief Editor

Nuvin BALLOO

Contributors

Sheena JADOO
Indradev PUROHOO
Vaman SURROOP

Contact Us

We will be delighted to hear from you at
research@sbmgroup.mu
for any queries or comments

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